

MARK R. HUTCHINSON

Attorney at Law

2207 Frederica Street
Owensboro, Kentucky 42301
E-Mail: mrhutchlaw@aol.com

RECEIVED

JUN 10 2004

Telephone No:
(270) 926-5011

PUBLIC SERVICE COMMISSION Fax No:
(270) 926-9394

FACSIMILE TRANSMISSION
AND REGULAR MAIL

June 7, 2004

Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602

RE: Atmos Energy/Hedging Program for 2003-2004
Heating Season
Case No. 2004-00142

Dear Sir:

Enclosed herewith is an original, plus ten (10) copies, of Atmos Energy's Comments in response to comments of the Attorney General in connection with the above referenced case. I am also enclosing one extra copy which I would appreciate your marking as "stamped" as having been filed with your office and return to me.

If there are any problems or questions with the enclosed, please do not hesitate to contact me. Thanks.

Very truly yours,

Mark R. Hutchinson
Mark R. Hutchinson 

MRH:bkk

procurement performance based rate-making (“PBR”) mechanism. Claiming that the least cost pricing encouraged by the PBR conflicts with the hedging plan’s goal of reducing price volatility, the AG suggests that approval be contingent on a cost-benefit analysis showing that customers will not be paying more under the combination of hedging and a PBR than they would in the absence of both programs. As the Commission concluded in last year’s Order (Case No. 2003-00192), the suggested analysis would not be meaningful since there is no supportable basis for volatility assumptions that would be required.

The AG also recommends that some portion of the cost of the program be assigned to Atmos Energy. Again, this is an AG position from each of the previous hedging cases. In each instance, the Commission has determined that customers should bear the cost of the program “since it is customers, not the utility or its shareholders, who stand to receive the benefits realized through a hedging program.”

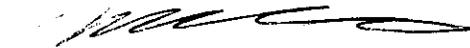
Certain comments by the AG apply to provisions which are not a feature of Atmos Energy’s proposal for the upcoming winter. For example, the AG discourages approval of a program employing “mechanistic” purchasing of hedges. Although Atmos Energy’s early hedging programs did utilize a “systematic” approach to purchases, neither the program last winter nor the proposal for next winter employ that process. Atmos Energy’s plan is to enter its hedging arrangements in response to changes in market conditions, as suggested last year by the Commission.

Atmos Energy is a long-standing, consistent advocate of hedging programs with the belief that hedging is essential to ensure affordable and stable gas costs for customers, particularly in response to continued gas price volatility and market

uncertainty. As stated in the Commission's Order in Case No. 2003-00192, "achieving price stability, not the lowest possible cost, is the goal of a hedging program."

The AG offers no new arguments, nor any evidence in support of their old arguments in opposing the hedging proposal for next winter. Atmos Energy's proposed hedging program is the same plan approved for last winter. Atmos Energy respectfully requests Commission approval of the motion to conduct a hedging program for the 2004-2005 Heating Season, as filed on April 20, 2004.

Respectfully submitted this 7th day of June, 2004.



Mark R. Hutchinson
2207 Frederica Street
Owensboro, Kentucky 42303
(270) 926-5011

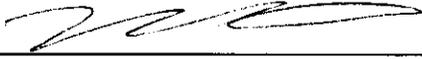
Douglas Walther
Atmos Energy Corporation
P.O. Box 650250
Dallas, Texas 75265
Attorneys for Atmos Energy

CERTIFICATE OF SERVICE

I hereby certify that on the 7th day of June, 2004, the original of the foregoing comments, together with ten (10) copies, were filed with the Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602, and a true copy thereof mailed by first class mail to the following named persons:

Hon. Elizabeth E. Blackford
Hon. David Spenard
Assistant Attorney Generals

Office of Rate Intervention
1024 Capitol Center Drive
Frankfort, Kentucky 40601



Mark R. Hutchinson